Office - Supreme Court, U.S.
FILED
SEP 8 1982
ALEXANDER L. STEVAS,
CLERK

No. 82-46

IN THE

Supreme Court of the United States

OCTOBER TERM, 1982

CATHOLIC BISHOP OF CHICAGO

Petitioner,

v.

F.E.L. PUBLICATIONS, LTD.

Respondent.

PETITIONER CATHOLIC BISHOP OF CHICAGO'S REPLY TO F.E.L.'S BRIEF IN OPPOSITION

DON H. REUBEN
JAMES A. SERRITELLA
JAMES A. KLENK
JAROSLAWA ZELINSKY JOHNSON
Attorneys for Petitioner

Of Counsel:
REUBEN & PROCTOR
19 South LaSalle Street
Chicago, Illinois 60603
(312) 558-5500

Pandick Press Midwest, Inc., Chicago • 454-7600

TABLE OF CONTENTS

		PAGE
I.	**THE SEVENTH CIRCUIT'S DECISION EFFECTIVELY NULLIFIES A FUNDAMENTAL RULE OF ANTITRUST LAW**	2
	A. The Court of Appeals' Decision is in Direct Conflict with *Loew's* and *Paramount Pictures*	2
	B. *BMI* cannot be Stretched to Cover this Case Without Overruling *Loew's* and *Paramount Pictures*	4
	C. Certiorari Should Be Granted to Reaffirm this Court's *Zenith* Rule	8
II.	**THIS COURT SHOULD ALSO GRANT CERTIORARI TO DETERMINE THE LEGAL EFFECT OF COPYRIGHT MISUSE**	10

TABLE OF AUTHORITIES

Cases

	PAGE
Alden-Rochelle, Inc. v. *ASCAP*, 80 F. Supp. 888 (S. D. N. Y. 1948)	9
Anderson Foreign Motors, Inc. v. *New England Toyota Distributors, Inc.*, 475 F. Supp. 973 (D. Mass. 1979)	5
Associated Press v. *Taft-Ingalls Corp.*, 340 F. 2d 753 (6th Cir. 1965)	5
Automatic Radio Mfg. Co., Inc. v. *Hazeltine Research*, 339 U. S. 827 (1950)	8, 9
Broadcast Music, Inc. v. *Columbia Broadcasting System, Inc.*, 441 U. S. 1 (1979)	8, 9
Buffalo Broadcasting Co. v. ASCAP, No. 78 Civ. 5670 (S. D. N. Y. Aug. 19, 1982)	7, 8
Catalano, Inc. v. *Target Sales Inc.*, 446 U. S. 643 (1980)	4
Columbia Broadcasting System, Inc. v. *ASCAP*, 620 F. 2d 930 (2d Cir. 1980)	9
F. E. L. Publications Ltd. v. *National Conference of Catholic Bishop*, 466 F. Supp. 1034, (N. D. Ill. 1978)	2
Moore v. *Jas. H. Matthews & Co.*, 550 F. 2d 1207 (9th Cir. 1977)	5
Morton Salt v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942)	10
Repp v. *F. E. L. Publications, Ltd.*, 1981-2 CCH Trade Cas. ¶ 64, 745, (7th Cir. May 18, 1982)	3, 4
Rosebrough Monument Co. v. *Memorial Park Cemetary Ass'n*, 666 F. 2d 1130 (8th Cir. 1981)	5

PAGE

United States v. *Jerrold Electronics Corp.*, 187 F. Supp. 454 (E. D. Pa. 1960) 5

United States v. *Loew's Inc.*, 317 U. S. 38 (1962) ... 2, 6

United States v. *Paramount Pictures*, 334 U. S. 131 (1948) 2, 6, 8, 9

Zenith Radio Corp. v. *Hazeltine Research Inc.*, 395 U. S. 100 (1969) 8, 9

IN THE

Supreme Court of the United States

OCTOBER TERM, 1982

CATHOLIC BISHOP OF CHICAGO

Petitioner,

v.

F.E.L. PUBLICATIONS, LTD.

Respondent.

PETITIONER CATHOLIC BISHOP OF CHICAGO'S REPLY TO F.E.L.'S BRIEF IN OPPOSITION

F.E.L.'s Brief in Opposition ("F.E.L. Br. Op.") only underscores the national importance of this case and the need for Supreme Court review. F.E.L. admits that its Annual Copy License ("ACL"), which the Bishop challenges as a *per se* antitrust violation and a misuse of F.E.L.'s copyrights, was a response to a "growing problem in Catholic churches throughout the United States." (F.E.L. Br. Op., 2.) Indeed, shortly after F.E.L. filed this action it sued the National Conference of Catholic Bishops and the United States Catholic Conference, alleging that copyright violations were being committed in numerous other dioceses and archdioceses, including Boston,

New York, Brooklyn, Buffalo, Cincinnati, Cleveland, Denver, Fort Wayne, South Bend, Green Bay, Phoenix, Arlington (Va.), St. Augustine and San Francisco. *F.E.L. Publications, Ltd. v. National Conference of Catholic Bishops,* 466 F.Supp. 1034, 1039, 1042, and n. 10 (N.D.Ill. 1978).[1]

F.E.L. also admits that the probable effect of the Court of Appeals' decision is that "more competitors may be stimulated to offer a [mandatory] blanket copy license." (F.E.L. Br. Op., 14.) As a result, the 22,000 Catholic parishes in the United States will be forced to pay millions of dollars for the copying rights to music they do not want and will not use. These facts make it especially appropriate that this Court review the Seventh Circuit's effective nullification of this Court's opinions condemning mandatory package licensing of patents and copyrights as *per se* illegal. The Court of Appeals' unorthodox opinion countermands long-accepted antitrust doctrine and rejects the defense of copyright misuse and, unless corrected by this Court, will erase many years of this Court's jurisprudence and spawn confusion in the lower federal courts.

I. THE SEVENTH CIRCUIT'S DECISION EFFECTIVELY NULLIFIES A FUNDAMENTAL RULE OF ANTITRUST LAW.

A. The Court of Appeals' Decision Is in Direct Conflict With *Loew's* and *Paramount Pictures.*

Although F.E.L. claims that *United States v. Loew's Inc.,* 317 U.S. 38 (1962), and *United States v. Paramount Pictures,* 334 U.S. 131 (1948), are inapplicable, it makes no effort to explain why. In both *Loew's* and *Paramount Pictures,* copy-

[1] The *National Conference of Catholic Bishops* case was settled after the church agreed to send a letter reaffirming its position that parishes must obtain permission before copying copyrighted music. It was decided to pursue the antitrust and misuse issues which were then fully briefed in this case.

righted works could readily be, and were traditionally, licensed on an individual basis. However, in order to obtain the desired copyrighted works, a user was required to take other works which were not wanted. The Court held this "mandatory package licensing" or "block-booking" to be *per se* illegal.

The present case is identical. Prior to the institution of the ACL in 1972, parishes could license F.E.L. songs on an individual basis. After 1972, the *only* way a parish can license one F.E.L. song for use in its hymnals is to buy a license—the ACL—for all 1,400 F.E.L. songs. (A. 32a; Fitz. at 33-34.) The record is clear that most parishes do not want more than a few F.E.L. songs (DX I), and F.E.L.'s brief acknowledges that printed publications are "impractical" for at least "some churches" (F.E.L. Br. Op., 2.), and that the One-Time-Use-License was intended for use at single occasions (F.E.L. Br. Op., 3.), and does not permit the inclusion of material in custom made hymnals. In other words, F.E.L. concedes that it does not offer any viable alternative to the ACL.

There also can be no question but that the objective of F.E.L.'s blanket-only licensing policy was to suppress competition between individual copyrighted works. Most curiously, the same Seventh Circuit panel that decided this case later, in an antitrust suit by a composer of liturgical music, described F.E.L.'s practice in language that cannot be squared with the result here:

> The licensing practice employed by F.E.L. was a marketing and distribution practice. Its prime objective was to increase revenues under the familiar "tying" theory that low-in-demand musical works could be sold on the "coattails" of high-in-demand musical works. (cite omitted) The targets F.E.L. had in mind when it developed and instituted this practice were prospective purchasers and users of the musical works.... (*Repp v. F.E.L. Publications, Ltd.* 1981-2 CCH Trade Cas. ¶ 64,745, at p. 71,614 (7th Cir., May 18, 1982).)

The Seventh Circuit's description in *Repp* is correct and indeed is confirmed by F.E.L.'s own documents. F.E.L. ranks its hymns according to popularity and charges commercial publishers (who, unlike parishes, are not forced to buy the ACL to make copies) more than twice as much to copy its "Blockbusters" as its "Medium Popular" hymns. (DX C.) By tying its other songs to its "Blockbusters," F.E.L. eliminates the need for most of its repertoire to compete on the merits.

In sum, certiorari should be granted to resolve the conflict between the decisions of this Court and the opinion below. *Catalano, Inc. v. Target Sales, Inc.*, 446 U.S. 643 (1980).

B. *BMI* Cannot Be Stretched to Cover This Case Without Overruling *Loew's* and *Paramount Pictures*.

The individual salability of F.E.L.'s copyrighted works and the lack of realistically available alternatives to the ACL clearly distinguish this case from *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. 1 (1979). The ASCAP-BMI blanket licenses, developed under Justice Department consent decrees, are nonexclusive licenses granting nondramatic performance rights—a type of rights for which it is generally not feasible to negotiate individual licenses in advance. (441 U.S. at 11.) ASCAP and BMI cannot insist on a blanket license, and the fees for per-program licenses must offer the user a genuine economic choice between per-program licenses and the blanket licenses. The ASCAP-BMI blanket licenses were not found to be *per se* illegal because "there was no legal, practical or conspiratorial impediment to CBS's obtaining individual licenses; CBS in short, ha[d] a real choice." (441 U.S. at 24.)

The ACL, on the other hand, is mandatory. In *Repp*, the Seventh Circuit confirmed that "[t]he licenses were *non-negotiable* and F.E.L. *never* made available licenses covering less than all 1,145 works [now 1,400] or less than the $100.00 flat fee." *Repp, supra*, 1981-2 CCH Trade Cas. at p. 71,612 (emphasis added). A parish seeking to use a few F.E.L. hymns in its hymnal has *no* real choice but to take the blanket ACL.

The "single product" argument advanced by F.E.L. (F.E.L. Br. Op., 7-8.) and accepted by the Court of Appeals (A.11a-12a.) furnishes no basis for allowing F.E.L. to offer *only* a blanket license. A seller cannot evade the *per se* rule against tying by simply denominating a forced combination of what are normally offered as separate products as a "single product." *United States v. Jerrold Electronics Corp.*, 187 F.Supp. 454, 459 (E.D.Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961). When such a claim is raised, analysis should focus on whether it is necessary in the interests of economic efficiency to offer *only* the combination. *Rosebrough Monument Co. v. Memorial Park Cemetary Ass'n*, 666 F.2d 1130, 1141-42 (8th Cir. 1981), *cert. denied*, ____ U.S. ____ (1982); *Moore v. Jas. H. Matthews & Co.*, 550 F.2d 1207, 1215 (9th Cir. 1977); *Associated Press v. Taft-Ingalls Corp.*, 340 F.2d 753, 764 (6th Cir.), *cert. denied*, 382 U.S. 820 (1965); *Anderson Foreign Motors, Inc. v. New England Toyota Distributors, Inc.*, 475 F.Supp. 973, 982-86 (D.Mass. 1979). "Unless a cost savings results from the tying arrangement or the tied and tying products are typically used as a unit in fixed proportions, the tied product is often regarded as 'generically different,'" *Rosebrough, supra*, 666 F.2d at 1141; *Moore, supra.*

The record in this case presents an ideal opportunity for this Court to clarify the "single product" doctrine. The fact that parishes repeatedly requested licenses for only a few of F.E.L.'s 1400 compositions shows that offering only a blanket license does not promote economic efficiency. *Anderson, supra*, 475 F.Supp. at 985 ("dealer objections to the arrangement in the instant case suggest that it might not be an economically efficient approach"). Indeed, the "FDLC Update of Music Publishers' Reprint Permissions" (which F.E.L. offered for the first time in the Court of Appeals when F.E.L. was urging that disputed issues of fact barred summary judgment for the

Bishop) shows that users who are given a *choice* between individual and package licenses prefer *individual* licenses. (FDLC Update, pp. 28, 32.)[2]

Further, despite F.E.L.'s assertions to the contrary (F.E.L. Br. Op., 14 n. 10.), in the liturgical music licensing market licenses for individual hymns are normally offered separately. (Coughlin 24-25.) Only F.E.L. offers *only* a blanket license, even though no practical barrier to offering individual licenses exists. Not only did F.E.L.'s competitors offer per song licenses to parishes (at least prior to the decision below), but F.E.L. *itself* did so prior to 1972, and F.E.L. *continues* to offer individual licenses to commercial publishers and to pay its composers different amounts for each song.[3] Given these facts, there is no way to hold that the ACL is a "single product" without overruling the prohibition on "block-booking" laid down by this Court in *Loew's* and *Paramount Pictures.*

F.E.L.'s other attempts to attack the Bishop's analysis of *BMI* further underscore the need for review by this Court. *First,* the significance of BMI's footnote 37 is that it shows that the ASCAP-BMI blanket licenses are limited to nondramatic performance rights. By way of illustration, this Court in *BMI* points out that other rights such as dramatic, sheet music, recording and synchronization can be negotiated individually. As demonstrated by the practice of every publisher of liturgical music except F.E.L., copying rights likewise not only can be but are negotiated individually—that is the reality of the liturgical copy license market and the basis upon which antitrust cases must be decided.

---

[2] In stark contrast, ASCAP and BMI were formed to offer blanket licenses because it was generally impractical to negotiate licenses for the nondramatic performance of individual songs.

[3] The Seventh Circuit refused to consider the FDLC Update when it was proferred by F.E.L. But licensing policies of other publishers and consumer preferences are precisely the kind of evidence which the Catholic Bishop would offer if this case must be tried under the rule of reason.

Second, contrary to F.E.L.'s claim (F.E.L. Br. Op., 13.), the fact that F.E.L. owns its 1400 copyrights whereas ASCAP and BMI merely hold nonexclusive licenses *adds* to the anticompetitive effect of the ACL. Because ASCAP and BMI are merely middlemen or wholesalers of music, they can be avoided by a user through direct dealings with the copyright owner. F.E.L., on the other hand, has unfettered authority to extort whatever payments it can from its users. Justice Stevens' comments in his separate opinion in *BMI* about the "illegality of the blanket-only policy if ASCAP and BMI were the exclusive source of all licenses" (441 U.S. at 28) are thus directly applicable here.

Third, the ASCAP-BMI consent decrees require that alternatives to the blanket license be available on an individual basis through negotiations with the copyright holder—whether writer, composer or publisher. Here, there are no realistically available alternatives to the ACL. Even F.E.L.'s Brief in Opposition admits that printed publications are "impractical"—*i.e.,* not a substitute (F.E.L. Br. Op., 2.)—and that its One Time Usage License cannot be used to make a hymnal. (F.E.L. Br. Op., 3.)

The narrow scope of *BMI* is dramatized by a recent decision of the United States District Court for the Southern District of New York, which held the same ASCAP-BMI blanket licenses challenged in the *BMI* case to be illegal restraints of trade as applied to local television stations because no alternative opportunities were realistically available to them. *Buffalo Broadcasting Co., v. American Society of Composers, Authors and Publishers,* No. 78 Civ. 5670, slip op., (S.D.N.Y. August 19, 1982). The district court after a full trial (which the Seventh Circuit has denied the Bishop here) held that alternatives were not "realistically available" if they are "so costly or inefficient as to be impractical and unappealing to any user choosing freely." (*Id.* at 23.) It then found that because individual stations (like the individual parishes with which F.E.L. dealt) have much less market power than CBS, no

"realistically available" alternatives existed for them—per program licenses were too costly and burdensome (*Id.* at 29.), and direct or source licensing was unlikely to be obtained by someone without buying power. (*Id.* at 33.) The court further held (contrary to the Seventh Circuit here [A.13a.]) that *any* blanket license has anticompetitive potential, and that insofar as local television stations were concerned, that potential outweighed any benefits of a blanket license. (*Id.* at 37-38.)

Because alternatives to the ACL are not realistically available, this case falls squarely within the fundamental rule of antitrust law laid down by this Court in *Loew's* and *Paramount Pictures*, not within the narrow *BMI* exception. By enlarging the exception to the point where it completely swallows the rule—particularly in a case affecting each of the 22,000 Catholic parishes and millions of Catholics in the United States—the Court of Appeals committed a significant doctrinal error clearly warranting intervention by this Court.

C. Certiorari Should Be Granted to Reaffirm this Court's *Zenith* Rule.

F.E.L.'s claim that *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), and *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research*, 339 U.S. 827 (1950), stand for the proposition that the licensee pays a lump sum for "the privilege to use any or all" of the copyrights and, therefore, "cannot complain that he must pay royalties if he chooses not to use them" (F.E.L. Br. Op., 13.) is simply wrong. The subsequent paragraphs of the *Zenith* opinion, carefully avoided by F.E.L., provide the appropriate context for the quoted passages:

> But we do not read *Automatic Radio* to authorize the patentee to use the power of his patent to insist on a total-sales royalty and to override protestations of the licensee that some of his products are unsuited to the patent or that for some lines of his merchandise he has no need or desire to purchase the privileges of the

> patent. In such event, not only would royalties be collected on unpatented merchandise, but the obligation to pay for nonuse would clearly have its source in the leverage of the patent.
>
> We also think patent misuse inheres in a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use. Unquestionably, a licensee must pay if he uses the patent. *Equally, however, he may insist upon paying only for use.* . . . (*Zenith*, 395 U.S. at 139; emphasis added.)

The true significance of *Zenith* and *Automatic Radio* was succinctly stated by the Second Circuit on remand in *BMI:* "Trade is restrained, frequently in an unreasonable manner, when rights to use individual copyrights or patents may be obtained only by payment for a pool of such rights [citing *Paramount Pictures, Zenith,* and *Alden-Rochelle, Inc. v. ASCAP,* 80 F. Supp. 888 (S.D.N.Y. 1948)], but the opportunity to acquire a pool of rights does not restrain trade if an alternative opportunity to acquire individual rights is fully available." *Columbia Broadcasting System, Inc. v. ASCAP,* 620 F.2d 930, 935-36 (2d Cir. 1980), *cert. denied,* 450 U.S. 970 (1981).

In the present case, no realistically available alternative to acquire individual rights exists. The only practical way for a parish to obtain the right to use an individual F.E.L. song in its custom hymnal is to pay for a pool of 1400 F.E.L. songs—the ACL. *Zenith* and *Automatic Radio,* far from supporting F.E.L.'s position, add further weight to the inescapable conclusion that the Seventh Circuit's decision effectively nullifies a fundamental principle of antitrust law painstakingly established by this Court—that individually-salable patents or copyrighted works must be permitted to compete in the marketplace on their own merits. Only by granting *certiorari* and reversing the Court of Appeals can this principle be preserved.

II. THIS COURT SHOULD ALSO GRANT CERTIORARI TO DETERMINE THE LEGAL EFFECT OF COPYRIGHT MISUSE.

F.E.L.'s Brief in Opposition also confirms the need for this Court to provide the lower federal courts with guidance on whether misuse of a copyright, like misuse of a patent, renders the statutory grant unenforceable. Since *Morton Salt v. G.S. Suppiger Co.*, 314 U.S. 488, 493-94 (1942), this Court has consistently held that misuse of a patent precludes the patentee from enforcing it "regardless of whether the particular defendant has suffered from the misuse." Moreover, *Loew's* states that patent misuse principles are generally applicable to copyright misuse.

A number of lower court decisions—including that of the District Court in this case (A.35a-36a.)—have accordingly held that misuse of a copyright renders it unenforceable until the misuse has been "purged." The Seventh Circuit, however, concluded that misuse of a copyright does *not* necessarily preclude its enforcement. (A.9a.) F.E.L. goes even further, branding those lower court decisions applying *Morton Salt* to copyright misuse as "aberration[s]." (F.E.L. Br. Op., 10.) Indeed, F.E.L. originally sought summary judgment in this case on the theory that copyright misuse *never* renders the copyright unenforceable.

This case directly and appropriately presents this Court with an opportunity to decide the legal effect of copyright misuse. Not only did F.E.L. engage in illegal "block-booking" of its copyrights, but the ACL on its face (1) purports to command unsophisticated nuns and priests to purchase the license if they wish "to perform the music and/or text at not-for-profit performances" (A.41a.), and (2) licenses the copying

and performance of material in the public domain (A.41a-42a.), neither of which are rights granted by the copyright laws.[4]

The question whether a copyright holder's right to enforce a copyright is precluded by misuse of the copyright is important to the administration of the copyright laws. Certiorari should be granted to resolve this controversy as well as to preserve the rule that individually-salable copyrights or patents must be permitted to compete on their own merits.

In light of the foregoing, the Catholic Bishop suggests that plenary review of the action below is warranted.

Respectfully submitted,

DON H. REUBEN
JAMES A. SERRITELLA
JAMES A. KLENK
JAROSLAWA ZELINSKY JOHNSON
Attorneys for Petitioner

Of Counsel:
REUBEN & PROCTOR
19 South LaSalle Street
Chicago, Illinois 60603
(312) 558-5500

---

[4] The Seventh Circuit's statement that "we . . . do not believe that the ACL, read as a whole, exacts a fee for exempt performances" (A.9a.) is inconsistent with the language of clause 4 of the ACL, "which purportedly grants the user the right to perform the music at not-for-profit services" (A.6a.), and assumes that nuns and priests are familiar with the intricacies of the copyright laws. Its further statement that "there is no evidence that F.E.L. exacted a fee for words in the public domain" (A.9a.) ignores the admission of F.E.L.'s chief financial officer (Boyd Dep. at 31-32) that F.E.L. did exactly that.